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EASTERN DISTRICT OF NEW YORK

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S&L VITAMINS, INC., Plaintiff, - vs. – AUSTRALIAN GOLD, INC., Defendant.	CIVIL ACTION NO. 05-CV-1217 (JS) (MLO)
AUSTRALIAN GOLD, INC., Third Party Plaintiff, - vs. – LARRY SAGARIN AND JOHN DOES 1-10, Third Party Defendants.	**MEMORANDUM OF LAW OF PLAINTIFF AND THIRD PARTY DEFENDANT IN OPPOSITION TO AUSTRALIAN GOLD'S MOTION FOR PARTIAL SUMMARY JUDGMENT**

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TABLE OF CONTENTS

Page

PRELIMINARY STATEMENT 1

LEGAL ARGUMENT..3

I. LEGAL STANDARD FOR SUMMARY JUDGMENT..3

II. AUSTRALIAN GOLD IS NOT ENTITLED TO SUMMARY JUDGMENT ON S&L'S CLAIM FOR UNFAIR COMPETITION..4

III. AUSTRALIAN GOLD IS NOT ENTITLED TO SUMMARY JUDGMENT ON ITS COPYRIGHT RELATED CLAIMS 6

A. S&L did not infringe upon any of Australian Gold's statutory rights in the copyrighted works...6

B. Australian Gold's claims that S&L "altered" defendant's copyrighted artwork are without merit...7

C. Even if the Copyright Act did not explicitly permit S&L's use of photographs of Australian Gold's copyrights, S&L's use would be protected by fair use. 8

i. Purpose and character of the Use..9

ii. Nature of copyrighted work. 11

iii. Amount and substantiality of the portion used. 12

iv. Effect upon potential market..14

D. S&L has not waived the fair use defense...16

IV. AUSTRALIAN GOLD IS NOT ENTITLED TO SUMMARY JUDGMENT ON ITS CLAIMS FOR REVERSE PASSING OFF OR FALSE DESIGNATION OF ORIGIN 17

A. Australian Gold has no evidence of confusion. 18

B. S&L did not engage in "reverse passing off" or "false designation of origin.".....20

C. S&L sells genuine Australian Gold products...22

D. S&L explicitly informs consumers that it is not an authorized seller....................23

CONCLUSION...24

TABLE OF AUTHORITIES

Cases Page

A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004 (9th Cir. 2001)................................11

Anderson v. Liberty Lobby, Inc., 477 U.S. 242 (1986)..3

Block v. First Blood Associates, 988 F.2d 344 (2nd Cir. 1993)..17

Bateman v. Mnemonics, 79 F.3d 1532 (11th Cir. 1996) 16

Bray v. Marriott Hotels, 110 F.3d 986 (3rd Cir. 1997) 3

C.L.A.S.S. Promotions, Inc. v. D.S. Magazines, Inc. 753 F.2d 14 (2nd Cir. 1985)...........19

Campbell v. Acuff Rose Music, Inc., 510 U.S. 569 (1994) 8

Carino v. Town of Deerfield, 750 F. Supp. 1156, 1162 (N.D.N.Y. 1990)........................16

Clipper Express v. Rocky Mountain Motor Tariff Bureau, Inc., 690 F.2d 1240 (9th Cir. 1982), cert. denied, 459 U.S. 1227 (1983).........................4

Conmed Corporation v. Erbe Electromedizin GMBH, 129 F. Supp.2d 461 (N.D. NY) (2001)..6

Davis v. The Gap, Inc., 246 F.3d 152 (2d Cir. 2001) 10

Downloadcard, Inc. v. Universal Music Group, Inc., 2002 WL 31662924 (S.D.N.Y. 2002)..19

E.S. Originals Inc. v. Stride Rite Corp., 656 F.Supp 484, 490 (S.D.N.Y. 1987)..............19

Eden Toys, Inc. V. Floralee Undergarment Co., Inc., 697 F.2d 27 (2d Cir. 1982)...........20

El Greco Leather Prods. Co., Inc. v. Shoe World, 806 F.2d. 392 (2d Cir. 1986).............23

Estee Lauder, Inc. v. Fragrance Counter, Inc., 189 F.R.D. 269 (S.D.N.Y.1999)...............5

Harper & Row, Publishers, Inc. v. Nation Enters., 471 U.S. 539 (1985) 9, 12

Heinz v. Frank Lloyd Wright Foundation, 762 F. Supp. 804 (N.D.Ill. 1991) 5

Kelly v. Arriba Soft Corp., 336 F.3d 811 (9th Cir. 2003)...9, 10

LaMaur, Inc. v. Alberto-Culver Co., 1973 WL 917, 179 U.S.P.Q. 607 (D. Minn. 1973), aff'd, 496 F.2d 618 (8th Cir. 1974), cert. denied, 419 U.S. 902 (1974)..4

Lexmark International v. Static Control Components, 387 F.3d 522 (6th Cir. 2004)........15

Lipton v. Nature Co., 71 F.3d 464 (2nd. Cir 1995) 20

Matrix Essentials v. Karol, 1992 WL 142292 (N.D.Ill) 23

Matrix Essentials, Inc. v. Emporium Drug Mart, Inc., of Lafayette,
988 F.2d 587 (5th Cir 1993) 23

Mattel, Inc. v. Walking Mountain Productions, 353 F.3d 792 (9th Cir. 2003) 12

Monotype Imaging, Inc. v. Bitstream Inc., 2006 U.S. Dist. LEXIS 7410 (N.D. Ill. 2005) 17

Osem Food Industries, Ltd. v. Sherwood Foods, Inc., 917 F.2d 161 (4th Cir. 1990) 21

Perfect Fit Industries, Inc. v. Acme Quilting Co., 618 F.2d 950 (2nd Cir 1980) 21

Pioneer Leimel Fabrics, Inc. v. Paul Rothmann Industries, Ltd.,
25 U.S.P.Q.2d 1096 (E.D. Pa. 1992) 23

Puritan Sportswear Corp. v. Shure, 307 F. Supp. 377, 165 U.S.P.Q. 71 (W.D. Pa. 1969) 4

Rosenfeld v. W.B. Saunders, a Div. of Harcourt Brace Jovanovich,
728 F. Supp. 236 (S.D.N.Y. 1990) 20

Serbin v. Bora Corp., 96 F.3d 66 (3d Cir. 1996) 3

Shakespeare Co. v. Silstar Corp. of America, Inc.,
110 F.3d 234 (4th Cir. 1997) *cert. denied* 522 US 1046 (1998) 21

Smith v. Montoro, 648 F.2d 602, 605 (9th Cir.1981) 20

Sony Computer Entertainment America, Inc. v. Bleem, 214 F.3d 1022 (9th Cir. 2000) 11, 14

Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. (1984) 8

Spangler Candy Co. v. Crystal Pure Candy Co., 235 F. Supp. 18 (D. Ill. 1964). 5

T.N. Dickinson Co. v. LL Corp., 985 WL 14175, 227 U.S.P.Q. 145 (D. Conn. 1985) 4, 6

Triangle Publications, Inc. v. Knight-Ridder Newspapers, Inc., 626 F.2d 1171 (5th Cir. 1980) 8

Ty, Inc. v. Publication Intern., Ltd.,
2004 WL 1588256 (N.D. Ill., Jul. 16, 2004) (Slip copy; No. 99 C 5565) 5

Ty, Inc., v. Publications International Ltd. 292 F.3d 512 (7th Cir. 2002) 13

Waldman Publishing Corp. v. Landoll, Inc., 43 F.3d 775 (2d Cir. 1994) 20

Weston Funding Corp. v. Lafayette Towers, Inc., 410 F. Supp. 980
(S.D.N.Y.1976), aff'd on other grounds, 550 F.2d 710 (2d Cir.1977)...................16

Williams & Wilkins Co. v. United States, 203 Ct. Cl. 74, 487 F.2d 1345 (Ct. Cl.
1973), *aff'd*, 420 U.S. 376 (1975)...8

Statues and Rules

17 U.S.C. § 107...8

17 U.S.C. §113(c) 7, 8

Fed.R.Civ.P. 8(c) 16

Fed.R.Civ. P. 15...17

Fed.R.Civ.P. 56...3

PRELIMINARY STATEMENT

Because S&L Vitamins, Inc. ("S&L"), the New York-based corporate plaintiff[1] in this matter, recently filed a summary judgment motion that laid out the facts and procedural posture of this case in detail, S&L will not dwell upon these matters once again. Nonetheless, a few brief points will be helpful to the Court.

Businesses are free to set up their contractual arrangements, and to distribute their products and services, in any way they see fit, short of violating the antitrust laws. They may use marketing insight, financial resources and, of course, superior products and services – not to mention pricing – to protect their business models from lawful competition. What they may not use to compete, however, is the courts. And when they threaten to do so, and are called to account for themselves, it is hardly unreasonable to insist that after two years of litigation, motions and discovery, they have some proof of the legal claims they have threatened. This, Australian Gold, Inc. ("AG") – which precipitated this litigation by its repeated threats to put S&L out of business via litigation – has failed to do.

It is important to understand what AG is bringing to this motion: exactly the same bare-bones claims it made in its amended counterclaim, and, factually, nothing more. AG is not, on its motion for summary judgment, placing before the Court some "smoking gun" that could finally provide an evidentiary basis for its claims. It has not even submitted a cold one. Rather, two years after this litigation began, after ample opportunity for full and thorough discovery, with plenty of time for the production of supporting expert reports, financial statements, etc., AG has **nothing** to bring to the table in terms of facts which would support its request for summary judgment.

[1] The third party defendant, Larry Sagarin, is a principal of S&L, and AG asserts the same claims against both. For convenience, both are referred to collectively here as "S&L," "S&L" or "plaintiff." Similarly, both the counterclaims and the third-party complaint will be referred to herein as the "counterclaims."

Ironically for a company that sells tanning lotion, AG resorts to creating fog to obscure the fact that it is asking the Court to make a unique use of trademark law. It proposes that the purpose of the Lanham Act is not protecting consumers from confusion, but rather stifling truthful advertising that enables a competitor to provide price discounts to those consumers, merely because AG can invent some implausible theories about how some hypothetical consumer somewhere sometime might somehow become confused. The time for such speculation, however, is not upon a motion for summary judgment – much less one's own.

Similarly, AG employs a plethora of verbiage in an attempt to disguise the audacity of its copyright-related claims, the essence of which are that because AG has cunningly placed pictures on the bottles of tanning lotion it sells, neither S&L nor any other retailer not pre-approved by AG may truthfully advertise that it sells these lotions. To be clear on this point: defendant is **not** alleging that S&L Vitamins has duplicated its website[2]. Rather, defendant alleges that the mere fact that S&L Vitamins is displaying pictures and descriptions of the products it lawfully owns and sells constitutes infringement because defendant owns copyrights in some of these materials. If defendant's theory of copyright law were valid, no retailer could place advertisements in the newspaper illustrating the products it had for sale unless the manufacturer of those products first gave it permission. As the Copyright Act makes clear, this is not, to say the least, the purpose of copyright law.

Finally, it is respectfully submitted that the Court must, throughout its analysis of these issues, keep in mind a solitary and fundamental fact: **S&L has a right to sell AG's merchandise, and not even AG has had the gall to suggest that otherwise.** What AG says, however, is that it is against the law for S&L to promote that sale in any sort of effective fashion

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[2] At one point in its brief, defendant does imply that S&L copied some product photographs directly from defendant's website. To the extent AG makes this claim, it is based on a misreading of the statements of undisputed facts previously submitted in this case.

– essentially rendering such sale impossible by virtue of the "law" according to Australian Gold. Because the summary judgment motion that S&L has cross-filed lays out in great detail why plaintiff is entitled to summary judgment in its favor on all the disputed claims in this matter, plaintiff will not waste the Court's time by repeating each of its arguments here. Rather, plaintiff will take this opportunity to respond to the points raised by AG in its summary judgment motion, to demonstrate why these points are meritless, why AG's motion for partial summary judgment should be denied on all counts.

LEGAL ARGUMENT

I. LEGAL STANDARD FOR SUMMARY JUDGMENT.

Under Fed. R. Civ. P. 56, summary judgment may be granted only when the evidence contained in the record, "including the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law." *Serbin v. Bora Corp.*, 96 F.3d 66, 69 n.2 (3d Cir. 1996). In determining whether there are any disputed issues of material fact which must be reserved for trial, the court must view the record in the light most favorable to the non-moving party, and must determine whether the totality of the evidence would allow a reasonable fact-finder to conclude that bias is established. *Bray v. Marriott Hotels*, 110 F.3d 986 (3rd Cir. 1997). The threshold inquiry is whether there are "any genuine factual issues that properly can be resolved only by a finder of fact because they may reasonably be resolved in favor of either party." *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 250 (1986). AG's motion falls far short of meeting these standards for summary judgment.

II. AUSTRALIAN GOLD IS NOT ENTITLED TO SUMMARY JUDGMENT ON S&L VITAMINS' THIRD CAUSE OF ACTION FOR UNFAIR COMPETITION.

AG contends that it did not engage in unfair competition because it did not use or misappropriate S&L's trade name or trademarks. S&L does not dispute this, but then again, S&L never suggested otherwise. AG misunderstands the gravamen of S&L's cause of action for unfair competition. The essence of plaintiff's claim is that AG is responsible for beginning this litigation by making baseless trademark related threats, forcing S&L to bring this action for declaratory judgment, and, under the Lanham Act, the filing of baseless litigation constitutes unfair competition. "A claim of trademark infringement must be carefully scrutinized to ensure that trademarks and the threat of trademark litigation is not, in essence, used in restraint of trade." *Puritan Sportswear Corp. v. Shure*, 307 F. Supp. 377, 390, 165 U.S.P.Q. 71 (W.D. Pa. 1969). For example, it may be anticompetitive for a trademark owner to use an infringement suit as a selective coercive device to enforce a policy of vertical price-fixing. *Id*. It is axiomatic that "if suit is used 'as a deliberate weapon of business aggression rather than an instrument for adjudicating honest disputes,' then it is an unfair method of competition." *T.N. Dickinson Co. v. LL Corp.*, 985 WL 14175, *7, 227 U.S.P.Q. 145 (D. Conn. 1985), quoting R. Callman, *Unfair Competition, Trademarks and Monopolies*, §2.32 (4th Ed. 1981). Furthermore, "malicious or excessive threats which go to companies whose activities could not possibly be considered as infringing . . . might be construed as an effort to extend a trademark monopoly beyond its legal limits." *LaMaur, Inc. v. Alberto-Culver Co.*, 1973 WL 917, *2, 179 U.S.P.Q. 607 (D. Minn. 1973), aff'd, 496 F.2d 618 (8th Cir. 1974), cert. denied, 419 U.S. 902 (1974). Based on these principles, the Ninth Circuit has held, in antitrust context, that even a single baseless lawsuit can constitute an unlawful business practice. *Clipper Express v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240, 1254 (9th Cir. 1982), cert. denied, 459 U.S. 1227 (1983). "The privilege which is given to the trademark holder is limited. The statements which are made must not be false and must not have been issued in bad faith." *Spangler Candy Co. v. Crystal Pure Candy Co.,* 235 F. Supp.18 (D. Ill. 1964). "A trademark owner may not send infringement letters which contain false statements or which are issued in bad faith." *Heinz v. Frank Lloyd Wright Foundation*, 762 F. Supp. 804 (N.D.Ill. 1991). Where, as here, there is proof that litigation is a "sham," the bringing of litigation can form the basis of an antitrust claim or misuse defense. *Estee Lauder, Inc. v. Fragrance Counter, Inc.*, 189 F.R.D. 269, 273 (S.D.N.Y.1999).

> The test for sham litigation requires proof that: (1) the suit was "objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits," and (2) there was subjective intent to use the litigation to interfere directly with the business relationships of a competitor. *See Professional Real Estate Investors v. Columbia Pictures Indus.*, 508 U.S. 49, 60-62, 113 S.Ct. 1920, 123 L.Ed.2d 611 (1993). "Under the objective prong ... sham litigation must constitute the pursuit of claims so baseless that no reasonable litigant could realistically expect to secure favorable relief." *Id.* at 62.

Ty, Inc. v. Publication Intern., Ltd., 2004 WL 1588256 (N.D. Ill., Jul. 16, 2004) (Slip copy; No. 99 C 5565).

From the beginning of this dispute (a year before this case was filed), and continuing until the present, AG has made completely baseless demands that S&L stop truthfully using its trademarks on S&L's website to inform consumers that it sells defendant's products. At the time AG first made these demands (right through this moment) AG has never had any evidence that S&L was doing anything improper. Indeed, as the initial correspondence in this case demonstrates, S&L invited AG to provide any legal argument or factual proof justifying its demands. AG was never able to do so, but continued to make threats of trademark litigation, for the sole purpose of shutting down a competitor. This is exactly the type of behavior forbidden by the Lanham Act, which was designed to offer litigants an antidote to the abuse of its own considerable potency.

Moreover, S&L has stated a valid claim under New York law for unfair competition. In New York, the elements of common law unfair competition are the same as those under the Lanham Act, with the additional requirement of an allegation of bad faith. See *Conmed Corporation v. Erbe Electromedizin GMBH*, 129 F. Supp. 2d 461 at 470 (N.D.N.Y.) (2001). The Lanham Act elements are laid out above. And because S&L has demonstrated that AG has brought obviously baseless claims in order to control competition, as described above, the element of bad faith has been established. As one District Court decision explained:

> New York federal district courts have . . . faced such a claim and, in construing New York law, have held that filing **legitimate** lawsuits does not constitute unfair competition, but filing or threatening to file multiple, baseless lawsuits does. Several commentators agree with the New York view, stating that filing suit is not ordinarily an act of unfair competition, but if suit is used "as a deliberate weapon of business aggression rather than an instrument for adjudicating honest disputes", then it is an unfair method of competition. Plaintiff's allegations suggest that defendants did not file their petitions to obtain adjudication of *honest* disputes, but rather to wage a competitive battle against TND. The allegations that the petitions contained false and misleading statements bolster TND's assertions of defendant's illegitimate motives. If true, the allegations of the complaint indicate that defendants committed acts of unfair competition.

T.N. Dickinson Co. v. LL Corp., 985 WL 14175, 227 U.S.P.Q. 145, 148-149 (D. Conn. 1985) (emphasis added, citations omitted). As a summary judgment matter, AG has, on this record, failed to demonstrate that S&L could demonstrate that a jury should not consider whether its repeated, unfounded threats of litigation against S&L constituted unfair competition.

III. AUSTRALIAN GOLD IS NOT ENTITLED TO SUMMARY JUDGMENT ON ITS COPYRIGHT-RELATED CLAIMS.

A. S&L Vitamins did not infringe upon any of Australian Gold's statutory rights in the copyrighted works.

AG argues that it owns copyrights in miscellaneous artwork contained on the product labels of its tanning lotion bottles, and S&L does not dispute this point. AG further makes the undisputed points that S&L had access to this copyrighted artwork, and by taking pictures of the tanning lotion bottles, also took photographs of the artwork.[3] AG then goes on to assert, however, that by taking these photographs of these bottles and placing them on its retail website, S&L has infringed upon the copyrights in the pictures on the bottles. As described more fully in S&L's memorandum in support of its pending motion for summary judgment, AG's argument is negated by the plain language of the Copyright Act, 17 U.S.C. §113(c), which explicitly states:

> In the case of a work lawfully reproduced in useful articles that have been offered for sale or other distribution to the public, copyright does not include any right to prevent the making, distribution, or display of pictures or photographs of such articles in connection with advertisements or commentaries related to the distribution or display of such articles, or in connection with news reports.

This section of the Copyright Act is exactly on point; defendant has reproduced artwork in its bottles ("useful articles") that are on sale, and now attempts to prevent the making of pictures of these articles in connection with advertisements. It may not do so. It is clear why Congress chose this path: Copyright is designed to give a monopoly to an author to protect creative expression, not to give a monopoly to companies selling goods and services. If a company such as AG could simply embed a copyrighted work in its packaging, it could prevent anyone it disapproved of from advertising those goods for sale, making a ban on advertising a ban on sales.

B. Australian Gold's claims that S&L "altered" defendant's copyrighted artwork are without merit.

AG argues that when S&L placed its logo on the photographs on its website, it "altered" defendant's copyrighted artwork. If S&L had placed this watermark on the copyrighted artwork, this argument might be entitled to some weight. As defendant's own submissions demonstrate (see AG's Rule 56.1 Statement, Exhibits H-L), however, this is not what has happened. Rather,

[3] Defendant confusingly describes these photographs as "full-sized images," and S&L is not entirely clear as to what AG means by this. As can be seen from AG's own submissions (AG's Rule 56.1 Statement, Exhibits H-L), these images are much smaller than real tanning lotion bottles.

S&L places its watermark on the border of the **photographs**, taken by S&L's own photographer, of bottles of tanning lotion, not on AG's artwork. AG's "artwork" remains completely unaltered.

C. Even if the Copyright Act did not explicitly permit S&L's use of photographs of Australian Gold's copyrights, S&L's use would be protected by fair use.

The Court should be clear that AG's motion does not argue that there was infringement of the copyright **in its photographs**; it cannot, because AG has no proof that S&L used photographs that belonged to AG. Rather, AG argues that photographs of products with copyrighted works on them, used by a retailer, "infringe" upon its copyrights. While, as noted above, §113 of the Copyright Act explicitly rejects AG's copyright argument, it is additionally the case that the fair use provisions of the Copyright Act – 17 U.S.C. § 107 – also protect S&L from AG's allegations.

Congress established fair use to ensure that copyright protection advances rather than thwarts the essential purpose of copyright: "To promote the Progress of Science and useful Arts." U.S. Const. art. I, sec. 8, cl. 8; see also *Campbell v. Acuff Rose Music, Inc.*, 510 U.S. 569 (1994). Congress has permitted others to use copyright-protected works, "including . . . by reproduction," when courts determine the use to be fair according to a non-exhaustive list of factors:

1. the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
2. the nature of the copyrighted work;
3. the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
4. the effect of the use upon the potential market for or value of the copyrighted work.

17 U.S.C. § 107. Some courts have pointed to industry custom as a factor militating in a defendant's favor. See, e.g., *Triangle Publications, Inc. v. Knight-Ridder Newspapers, Inc.*, 626 F.2d 1171 (5th Cir. 1980); *Williams & Wilkins Co. v. United States*, 203 Ct. Cl. 74, 487 F.2d 1345, 1353-56 (Ct. Cl. 1973), *aff'd*, 420 U.S. 376 (1975). Fair use has often been described as

an "equitable rule of reason," an area where judges are expected to balance equities and develop the law incrementally in response to the facts of each case. *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. (1984). The legislative history of the provision states explicitly that "the courts must be free to adapt the doctrine to particular situations on a case-by-case basis. H.R. Rep. No. 1476, 94th Cong. 2d Sess. 66 (1976), reprinted in 1976 U.S. Code Cong. & Admin. News, 5659, 5680. Although this Court has broad, equitable discretion to consider the application of the fair use defense, S&L nonetheless analyzes below the statutory fair use factors:

i. Purpose and character of the Use

S&L's use of the artwork in question is commercial, of course. But the Supreme Court has rejected the proposition that a commercial use of the copyrighted material ends the fair use inquiry. *Campbell*, 510 U.S. at 579. Instead, the *Campbell* Court stated the following:

> The central purpose of this investigation is to see . . . whether the new work merely supersede[s] the objects of the original creation, or instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message; it asks, in other words, whether and to what extent the new work is transformative.

Id. (internal quotation marks and citation omitted). The more transformative the new work, the less important the other factors, including commercialism, become. *Id*. While a profit-making purpose may militate against a finding of fair use, the "crux" of this factor "is not whether the sole motive of the use is monetary gain." *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539 (1985). The question, rather, is whether "the user stands to profit from exploitation of the **copyrighted material** without paying the customary price." *Id*. (emphasis added).

Quite on point is *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9th Cir. 2003), in which the Ninth Circuit determined that it was fair use of an artist's photographs to post small, low-resolution thumbnail images of those photographs on defendant's website, which searched the Internet and helped consumers find where they could buy the images it found. The Court held that commercial use did not weigh against fair use where it was "more incidental and less exploitative in nature" because the copies were used for a different purpose from the originals. *Id*. at 818-19. Moreover, the Court labeled an entire reproduction of a photograph as transformative, given that it was rendered in "thumbnail" form for the purpose of improving access to information on the Internet rather than for esthetic purposes. *Id*. at 819.

This case is similar to *Kelly v. Arriba Soft*. Here, too, S&L displayed on its website low resolution thumbnail sketches of images of AG's products so that consumers could see what it was that they were purchasing from S&L. S&L was not trying to sell its own products – unlike in the *Davis v. The Gap, Inc.*, 246 F.3d 152 (2d Cir. 2001) case cited by defendants – but, instead, was trying to inform consumers of the opportunity lawfully to buy AG products from S&L. S&L was not using the artwork displayed on AG's product packaging as a way to induce consumers to go to S&L's website, nor was S&L trying to profit by selling AG's copyrighted works themselves. Rather, the thumbnail sketches of AG's products were among dozens of images on S&L's website. Because the use of AG's product packaging artwork was merely for descriptive and informational purposes, such use was not highly exploitative, and the commercial nature of the use weighs only slightly against a finding of fair use. See *Kelly v. Arriba Soft*, 336 F.3d at 818.

Furthermore, S&L's use of the artwork contained on AG's products is transformative in nature. Here, S&L posted small, low-resolution images that served an entirely different function from AG's copyrighted works. The nature of AG's copyrighted artwork is that of a product package used to sell what is inside. An utterly non-transformative use would be for S&L to market its own brand of tanning products using identical product packaging. Here, however, the use is a thumbnail picture on a webpage, not to sell S&L's own lotions but, rather, to inform consumers truthfully that they could purchase AG's products from S&L's website. As in *Kelly* *v. Arriba Soft*, S&L's **thumbnails** are not substitutes for AG's actual **products**. No one is looking to buy S&L's thumbnails in place of AG's lotions. Therefore, S&L's use of the thumbnails serves a different function from AG's use – providing access to information on the Internet about a product versus the product itself. Because S&L's use is not superseding AG's use but, rather, has created a different purpose for the thumbnail images, S&L's use is transformative.

Furthermore, S&L's use of the thumbnails benefit the public by enhancing information-gathering techniques on the Internet, and such use does not stifle artistic creativity in contravention of the Copyright Act. In *Sony Computer Entertainment America, Inc. v. Bleem*, 214 F.3d 1022 (9th Cir. 2000), the Ninth Circuit found fair use when defendant copied screen shots from Sony computer games and used them in its own advertising. In finding that the first fair use factor weighed in favor of defendant, the Court stated that "Although Bleem is most certainly copying Sony's copyrighted material for the commercial purposes of increasing its own sales, such comparative advertising redounds greatly to the purchasing public's benefit with very little corresponding loss to the integrity of Sony's copyrighted material.." *Id*. at 1027. In the same vein, the first of the fair use factors weighs in favor of S&L due to the public benefit of having enhanced information on the Internet and due to the absence of loss to the integrity of AG's product packaging artwork.

ii. Nature of copyrighted work.

In *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001), the Court noted that "[w]orks that are creative in nature are closer to the core of intended copyright protection than are more fact-based works." *Id*. at 1016 (internal quotation marks omitted). Here, although there may have been creativity involved in creating the artwork in question, AG's copyrighted artwork is product packaging design – a functional work, hardly at the core of intended copyright protection, and thus is worthy of much less protection than are true literary or artistic works.

Additionally, AG's products and packaging have been available throughout the Internet and in the marketplace for some time, long before S&L posted thumbnails on its website. AG's copyrights are hardly entitled to the same degree of protection as an unpublished literary or artistic work. The scope of fair use is narrower with respect to unpublished works because the author's right to control the first public appearance of his work weighs against the use of his work before its release. *Harper & Row, Publishers, Inc. v. Nation Enters.,* 471 U.S. at 564. When considering the lack of creativity and functionality involved in the copyrights at issue, and that this is not an instance involving unpublished works, this fair use factor weighs profoundly in favor of S&L.

iii. Amount and substantiality of the portion used.

The third factor in the fair use argument is the amount and substantiality of the portion used. As the cases below demonstrate, because of the nature of the work in question, S&L's use of a substantial portion of the artwork and product descriptions here was reasonable.

For example, when an artist took photographs of a Barbie Doll for the purposes of parody, the Ninth Circuit noted as follows:

> Mattel's argument that Forsythe could have taken a lesser portion of its work attempts to benefit from the somewhat unique nature of the copyrighted work in this case. Copyright infringement actions generally involve songs, video, or written work. . . . Because parts of these works are naturally severable, the new work can easily choose portions of the original work and add to it. Here because the copyrighted material is a doll design and the infringing work is a photograph containing that doll, Forsythe, short of severing the doll, must add to it by creating a context around it and capturing that context in a photograph.

Mattel, Inc. v. Walking Mountain Productions, 353 F.3d 792, 804 (9th Cir. 2003). Similarly, in the instant case we are concerned with a bottle of tanning lotion, not a book or other work of literature or art. S&L could not display or describe the product accurately with merely a portion of the copyrighted work; nor is it conceivable that if it had, that plaintiff would not have made this same claim anyway.

Perhaps an even more striking parallel set of facts occurred in the case of *Ty, Inc., v. Publications International Ltd.* 292 F.3d 512 (7^{th} Cir. 2002). The defendant published a collector's guide to Beanie Baby stuffed animals, which were manufactured and sold by plaintiff. The collector's guide contained photographs of the products. Plaintiff, which owned copyrights to the products, claimed that defendant had infringed on those copyrights, and in particular alleged that defendant had copied far more than was necessary in order to create the guide. The court disagreed:

> But the cases are clear that a complete copy is not per se an unfair use, and the suggested analogy overlooks the fact that a collectors' guide, to compete in the marketplace, has to be comprehensive. Given that Ty can license (in fact has licensed) the publication of collectors' guides that contain photos of all the Beanie Babies, how could a competitor forbidden to publish photos of the complete line compete? And if it couldn't compete, the result would be to deliver into Ty's hands a monopoly of Beanie Baby collectors' guides even though Ty acknowledges that such guides are not derivative works and do not become such by being licensed by it.

Id. at 521 (internal citations omitted). Similarly, there is no way for S&L to compete in the marketplace for retail sales of AG products – which it has every legal right to do, no matter how many times AG squeezes the legally meaningless word “unauthorized” into its submission – if S&L is unable to advertise the products it sells. The truth, of course, is that AG does not wish S&L to compete in the marketplace. Nonetheless, copyright law is not an appropriate vehicle for AG to accomplish its goal of regulating the retail market for its products. Tanning lotion is not subject to AG’s copyright, and it is an improper use of that copyright to use it as a way to prevent others from selling the product.

iv. Effect upon potential market.

The fourth factor in the fair use argument, and by far the most important, is the effect of the alleged infringement on the plaintiff's potential market **for the work being infringed –** not the merchandise sold using that "work." AG's brief argues in conclusory fashion that S&L's actions "harm the market value of AG's copyrighted label artwork." AG provides no evidence for this, for an obvious reason: its label artwork *has no market value.* AG is in the business of selling tanning lotion, not "label artwork"; if it has ever offered the artwork for sale independently, it has provided no evidence of this. One might assume that AG is referring to the market for its tanning lotion (though it has submitted no evidence to suggest that this market is declining either, let alone that it is doing so because of S&L's use of product photographs on its website), but this argument would be unavailing, because AG would be focusing on the wrong "potential market." The relevant potential market here, for purposes of analyzing fair use, is the market for the copyrighted material, not for some other good, such as tanning lotion.

This fundamental point is laid out in *Sony Computer Entertainment Am., Inc., v. Bleem LLC*, 214 F.3d 1022 (9th Cir. 2000). The defendant was selling software that allowed Sony game software, designed for the Sony Playstation, to be played on personal computers. To illustrate the advantages of its product, defendants displayed "screen shots" – photographs depicting screens generated by the Playstation device – in its advertising, for the purpose of comparison. Sony alleged that this infringed its copyrights in the Playstation game. The court held that this comparative advertising constituted fair use, and noted that the harm to Sony, if any, was to the sale of its consoles, not to the sale of the game in question:

> We made a similar observation in our recent decision, also involving Sony, stating that some economic loss by Sony as a result of this competition does not compel a finding of no fair use. **Sony understandably seeks control over the market for devices that play games Sony produces or licenses. The copyright law, however, does not confer such a monopoly.**

Id. at 1029 (emphasis added). This instant case poses a similar situation: AG seeks control over the secondary markets for the distribution of AG tanning lotion. But whether or not AG is entitled to do so by other means, it is not entitled to do so via copyright, which is the only issue before the Court on this motion. AG is not entitled to bootstrap an argument about the actual or potential loss of sales of a non-copyrighted good in order to claim that a copyrighted good is being infringed. Here, there is an implication that AG may lose sales of lotion as a result of defendants' acts. Copyright law, however, is not designed to protect tanning lotion sales, because tanning lotion can never be the subject of copyright protection. Certainly, if it is fair use – as it was in *Sony* – for a **competitor** to use copyrighted material to sell a **competing** product, how much more fair use must it be for one who is selling a party's **own** products to use a picture of some copyrighted material in its advertisements?

Indeed, in another case addressing a similar issue, *Lexmark International v. Static Control Components*, 387 F.3d 522 (6th Cir. 2004), the Sixth Circuit addressed a situation in which a printer toner cartridge manufacturer copied part of the software used to operate the printer. There was no question that the software had been copied, and to the defendant's claim of fair use the plaintiff argued that it was losing sales of toner cartridges. The court noted, however, that this was an incorrect analytical approach to the fair use issue[4]:

> With respect to the fourth factor—the effect of the use on the value of the copyrighted material—the relevant question likewise is whether the infringement impacted the market for the copyrighted work itself. Here, the district court focused on the wrong market: it focused not on the value or marketability of the Toner Loading Program, but on Lexmark's market for its toner cartridges. **Lexmark's market for its toner cartridges and the profitability of its Prebate program may well be diminished by the SMARTEK chip, but that is not the sort of market or value that copyright law protects**…. Lexmark has not introduced any evidence

[4] The Court found as a preliminary matter that the software was likely not copyrightable, and thus that it did not need to address the fair use issue; it did so anyway, however, because it found that the copyrightability ruling might change as the case proceeded.

> showing that an independent market exists for a program as elementary as its Toner Loading Program, and we doubt at any rate that the SMARTEK chip could have displaced any value in this market.

Id. at 544 (emphasis added; internal citations omitted). Similarly, AG has introduced no evidence that the work allegedly copied by S&L – the label artwork – has any independent market at all. AG is in the business of selling suntan lotion, not little pictures of suntan lotion bottles. The issue of whether defendant's suntan lotion sales have diminished, or may diminish in the future, is outside the scope of copyright law – though it is once again important to note that even if the correct measure of the relevant market here were the sales of defendant's lotions, which it demonstrably is not, AG has provided no evidence that its sales of lotions have been harmed in any way by S&L's use of photographs of AG products, and by intuitively it appears that the opposite has probably occurred.

D. S&L has not waived the fair use defense.

Despite AG's assertions to the contrary, S&L has not waived its fair use defense. Indeed, it is questionable whether waiver of the fair use defense to copyright is possible, considering how axiomatic the right to fair use is. "Although the traditional approach is to view 'fair use' as an affirmative defense, this writer, speaking only for himself, is of the opinion that it is better viewed as a right granted by the Copyright Act of 1976." *Bateman v. Mnemonics*, 79 F.3d 1532, 1542 n.22 (11th Cir. 1996) (Birch, J.). Even if fair use is an affirmative defense, the Second Circuit hews to a standard requiring prejudice to plaintiff before ruling that an affirmative defense has been waived under Fed. R. Civ. P. 8(c). See, e.g., *Carino v. Town of Deerfield*, 750 F. Supp. 1156, 1162 (N.D.N.Y. 1990), noting that "in this Circuit defendants are not deemed to have waived the affirmative defense of res judicata by failing to expressly assert it in their answer," citing *Weston Funding Corp. v. Lafayette Towers, Inc.*, 410 F. Supp. 980, 982 n. 2 (S.D.N.Y.1976), aff'd on other grounds, 550 F.2d 710 (2d Cir.1977). Indeed, one of the two cases cited by defendant in support of its argument that this defense was waived helps illustrate this point: in *Monotype Imaging, Inc. v. Bitstream Inc.*, 2006 U.S. Dist. LEXIS 7410 (N.D. Ill. 2005) the court – while rejecting a fair use claim raised by defendant because it had not been pled in the answer – granted the defendant leave, at the time of summary judgment, to amend its answer under Fed. R. Civ. P. 15 to add that affirmative defense.

The factors that the Court must examine in determining prejudice are, "whether the assertion of the new claim would: (i) require the opponent to expend significant additional resources to conduct discovery and prepare for trial; (ii) significantly delay the resolution of the dispute; or (iii) prevent the plaintiff from bringing a timely action in another jurisdiction. *Block v. First Blood Associates,* 988 F.2d 344, 350 (2nd Cir. 1993). Here, not only has AG demonstrated no prejudice under any of these factors based on S&L's alleged failure to raise "fair use" as a defense – but AG has not even claimed that it has been prejudiced. Nor could it credibly do so; the very fact that it raised and addressed this issue in its summary judgment motion suggests that it has not been surprised as to the fact that the fair use defense might be relevant.

IV. AUSTRALIAN GOLD IS NOT ENTITLED TO SUMMARY JUDGMENT ON ITS CLAIMS FOR REVERSE PASSING OFF OR FALSE DESIGNATION OF ORIGIN.

S&L' website offers AG products for sale and uses AG trademarks to truthfully identify these products; there is no dispute about this. Thus, AG is forced to argue alternative theories for why S&L's conduct violates the Lanham Act. For the purposes of this motion, it has settled on two: "reverse passing off" and "false designation of origin," both of which fall far short of the high standard AG must meet to prevail on summary judgment. The essence of each of these claims is that S&L has made some misrepresentations that lead to consumer confusion. But because AG did not have any evidence of consumer confusion at the time it threatened suit against S&L, and because AG has failed to discover or produce any evidence, after two years of litigation, of any consumer confusion, defendant has simply laid out a hodgepodge of various arguments over the course of the litigation, apparently hoping that the sheer number of different theories it proposed would make up for the lack of weight of any of them. This will not do as a basis for summary judgment.

Defendant no longer attempts to argue that S&L's alleged use of metatags, search engine advertising, and sponsored links are confusing; instead, it relies upon the following three points: (1) S&L places its logo on its own website, adjacent to pictures of bottles of AG products that it sells, (2) S&L also places the words "All Rights Reserved" near those bottles, and (3) S&L's disclaimers are inadequate. According to AG, these claims are sufficient for it to prevail on the record it has placed before the court. But at the end of the day, the only possible conclusion is that AG's motion for summary judgment on these counts must be denied, because these arguments, and the evidence to back them up, do not add up to a case of a likelihood of confusion regarding which it can be said that there is "no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law."

a. Australian Gold has no evidence of confusion.

As discussed in detail in S&L's memorandum of law filed on its cross-motion, the Court can conclude from the lack of actual confusion, and the lack of survey evidence of confusion, that there is no likelihood of confusion. In other to forestall this, AG claims that it has evidence of actual consumer confusion as to whether S&L is an authorized distributor, citing an email exchange it had in 2005. (AG Rule 56.1 Statement, Exhibit C) But even taking the hearsay allegations in this email at face value[5], AG's claim falls apart upon closer examination. First, the "consumer" in question who wrote the email was not actually a consumer – i.e., an end-user such

[5] This email, in fact, was not produced in discovery, and should not be considered on this motion.

as S&L sells to – but a tanning salon upset that S&L was undercutting its prices. (AG describes it as "at least one consumer," but in fact the number is *exactly* one, not "at least" one.)

Second, the sender of the email merely asked whether S&L was an authorized distributor; it is not clear whether he was actually confused. See *Downloadcard, Inc. v. Universal Music Group, Inc*., 2002 WL 31662924 at *3 (S.D.N.Y. 2002), (noting that an inquiry as to whether there was an affiliation "illustrates a curiosity about origin, but this curiosity should not be conflated with confusion.") Third, and most importantly, **all** of AG's complaints here revolve around various facets of S&L's website, but **there is no indication in the email that the sender of the email had ever seen S&L's website.**

And, it bears repeating that, despite ample opportunity for AG to present actual instances of confusion – S&L, after all, has been selling AG products on the internet for three years now – or survey evidence demonstrating a likelihood of confusion, this single email exchange is the **only** piece of evidence it can produce. AG asks the court to find a likelihood of confusion based on a single ambiguous de minimis instance of possible confusion. Courts in this Circuit have rejected similar arguments before:

> The only evidence of actual confusion that Stride Rite introduced at trial was the testimony of a Stride Rite executive that in several instances, "ZIP 'N GO" sneakers were "passed-off" by store clerks in response to his requests for "ZIPS." See Tr. at 127-31. This "informal survey," which was made two days before trial, see id., is not a legally sufficient basis upon which to predicate a finding of actual confusion, and in any event, does not persuade the Court that there has been any actual confusion, especially in view of all the other evidence in the case, cf. Universal City Studios, Inc., supra, 746 F.2d at 118.

E.S. Originals Inc. v. Stride Rite Corp., 656 F.Supp 484, 490 (S.D.N.Y. 1987). See also *C.L.A.S.S. Promotions, Inc. v. D.S. Magazines, Inc*. 753 F.2d 14 at 18 (2nd Cir. 1985) (holding that a few examples of confusion were "insignificant when contrasted to the hundreds of thousands of magazines sold over the years.") Similarly, S&L has been selling AG products for three years, and has sold hundreds of thousands of dollars worth of such products.

b. S&L did not engage in "reverse passing off" or "false designation of origin."

AG argues that S&L's placing of its watermark on the photographs of bottles depicting defendant's copyrighted artwork constitutes "reverse passing off" or a "false designation of origin," relying upon *Waldman Publishing Corp. v. Landoll, Inc.*, 43 F.3d 775 (2d Cir. 1994) and *Eden Toys, Inc. V. Floralee Undergarment Co., Inc.*, 697 F.2d 27 (2d Cir. 1982). Even if S&L's actions could be construed as falsely claiming a copyright in AG's artwork, which is factually preposterous here, the Second Circuit, declining to extend *Waldman*, rejected this argument, holding, "as a matter of law, a false copyright notice alone cannot constitute a false designation of origin within the meaning of § 43(a) of the Lanham Act." *Lipton v. Nature Co.*, 71 F.3d 464, 473 (2nd. Cir 1995). The court also noted that in *Eden Toys*, there was an "additional representation that the product was 'original') *Lipton* at 474, a representation not found in this case.

Moreover, "reverse passing off" comes in two flavors, express and implied, and neither one exists here:

> Express reverse palming off occurs when 'the wrongdoer removes the name or trademark on another party's product and sells that product under a name chosen by the wrongdoer.' *Smith*, 648 F.2d at 605. Implied reverse palming off, in contrast, occurs when 'the wrongdoer simply removes or otherwise obliterates the name of the manufacturer or source and sells the product in an unbranded state.' *Id.*

Rosenfeld v. W.B. Saunders, a Div. of Harcourt Brace Jovanovich, 728 F. Supp. 236 (S.D.N.Y. 1990), *quoting Smith v. Montoro*, 648 F.2d 602, 605 (9th Cir.1981). None of these types of facts are present in this case. S&L does not alter the bottles of tanning lotion in any way, and does not remove AG's name or trademarks from the bottles (or from the photographs of the bottles).

Presumably because AG realizes it has been unable to provide any evidence of confusion, it cites *Perfect Fit Industries, Inc. v. Acme Quilting Co.*, 618 F.2d 950 (2nd Cir 1980) and *Osem Food Industries, Ltd. v. Sherwood Foods, Inc.*, 917 F.2d 161 (4th Cir. 1990) for the proposition that all it has to do is prove intentional copying in order to create a presumption of confusion, and that this somehow translates into a grant of summary judgment. Neither case is helpful to AG here. Each of them involved a second comer which copied the trade dress of a **competitor** in developing its **own** product packaging. But that has no application to a motion for summary judgment in a nominal fair use case such as this one, where **by definition** S&L is using the AG's trademarks, not to misidentify S&L's products, but to truthfully identify AG's products.

Moreover, the Fourth Circuit later clarified the *Osem* case to explain that the presumption it creates "arises only when the copier '*inten[ds] to exploit the good will* created by an already registered trademark.' 'A likelihood of confusion should not be inferred from proof that the actor intentionally copied the other's designation if the actor *acted in good faith under circumstances that do not otherwise indicate an intent to cause confusion or to deceive*." *Shakespeare Co. v. Silstar Corp. of America, Inc.*, 110 F.3d 234 (4th Cir. 1997) *cert. denied* 522 US 1046 (1998) (internal citation omitted; emphasis in original). In short, AG cannot bootstrap its way around proving its case; it must present evidence before the Court concludes that there was a likelihood of confusion. Certainly, for purposes of summary judgment, AG falls far short with this jerry-built attempt at crafting a trademark claim.

In an effort to bolster its flimsy arguments, AG attempts to argue that what it claims to be S&L's "misrepresentations" were intentional. But to do so, AG ironically misrepresents the facts, and claims that "S&L admits that the images of the Products on the 'BodySourceOnLine.Com' Website were copied from AG's photographs of the Products," citing to its confusing, compound statement of fact (AG Rule 56.1 Statement, ¶50) as evidence of this alleged "admission." In fact, that Statement of Fact does not say what AG now claims it says, and S&L has never admitted any such thing; S&L has consistently maintained that it has **not** copied AG's photographs, but rather took its own photographs of the products. (S&L admits that it "reproduced" the **artwork** as part of the photograph of the merchandise– because it had no way to display photographs of the products it was selling without doing so.[6]) Moreover, contrary to defendant's argument that plaintiff intentionally did this to mislead consumers, S&L has provided a straightforward alternative explanation: it placed its logo on the photographs that it took so that other websites which compete with S&L would not misappropriate the photos and use them on their websites (Affidavit of L.Sagarin, ¶25)

In short, AG asks the court to grant summary judgment – to rule that there are no material facts in dispute! – on its trademark infringement claim while presenting no evidence of intentional deception, no evidence of wrongdoing, no evidence of confusion, and no evidence of a likelihood of confusion. It cites no case which has facts at all similar to the facts presented in this action.

c. S&L sells genuine Australian Gold products.

Yet another argument AG floats is that lotions sold by S&L are not "genuine" AG products. This is not, according to AG, because S&L has tampered with or altered the products in any way. Rather, AG argues that tanning lotions sold by S&L become less "genuine" than lotions sold by other retailers simply because S&L does not teach consumers the arcane secrets of how to put on these tanning lotions. This meritless argument is dealt with in great detail in S&L's memorandum of law in support of its motion for summary judgment, and plaintiff will not belabor the point here.

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[6] Given defendant's argument that the mere proximity of S&L's logo to a picture of defendant's products was misleading, it does not take clairvoyance to predict that if S&L had in some way covered up defendant's "label artwork" before photographing the bottles, that defendant would still be here in this Court, this time complaining that plaintiff had misrepresented the look of its products.

The cases cited by AG in support of this notion are unavailing. The facts of *El Greco Leather Prods. Co., Inc. v. Shoe World*, 806 F.2d. 392 (2d Cir. 1986) and *Pioneer Leimel Fabrics, Inc. v. Paul Rothmann Industries, Ltd.*, 25 U.S.P.Q.2d 1096 (E.D. Pa. 1992) are completely inapposite; in each of those cases, there were issues as to the actual quality of the products being sold, which is simply not the case here. In *El Greco* the trademark holder had contracted with a third party to manufacture the goods, and had not had the opportunity to inspect them after they were manufactured. In *Pioneer Leimel* the products had actually been damaged in a fire. In contrast, in *Matrix Essentials v. Karol*, 1992 WL 142292 (N.D.Ill 1992) – an unreported district court case – the situation was far closer to the situation presented in this action, in that a manufacturer (in that case, of hair care products) claimed that the failure of the seller to provide training meant that the unadulterated products were not genuine. Even in that case, the district court did not find as a matter of law that the products were not genuine, as AG seeks to have the court do here; it merely denied the *defendant's* summary judgment motion, while noting that **the manufacturer** "faces serious obstacles in convincing a factfinder that consumers require professional advice selecting what appears to be a simple shampoo or styling gel," *Id*. at *6. With similar facts, the Fifth Circuit had no trouble finding that manufacturer's arguments identical to these were meritless in *Matrix Essentials, Inc. v. Emporium Drug Mart, Inc., of Lafayette*, 988 F.2d 587 (5th Cir 1993). What was most telling to the Fifth Circuit applies equally here: if tanning lotion is not "genuine" without training, then many of the "authorized" sales of tanning lotion would also not be genuine, because AG does nothing to ensure that all salon customers receive training.

d. S&L explicitly informs consumers that it is not an authorized seller.

Although AG knows that S&L expressly disclaims any affiliation with a tanning lotion manufacturer, this does not stop AG from misleadingly claiming that "S&L has failed to disclose that it is not authorized by AG to distribute the Products…" (A.G.'s Brief in Support of Motion P.13) In fact, S&L discloses on every single page on its website where AG Products are sold[7] – as can be seen in AG's own submissions – that "Body Source is Not affiliated with ANY Tanning Lotion manufacturer." AG presents no reason why a disclaimer that "specifically identifies AG" would be more effective in "eliminat[ing] consumer confusion" than one which disclaims relationship with **all** manufacturers. (Nor, it goes without saying, does AG demonstrate the existence of any "consumer confusion," either by actual example or a survey, that needs to be "eliminated.") It is unclear why an ordinary consumer buying an ordinary consumer product needs an extensive legal education in order not to be confused about the fact that a particular retailer may not be part of a manufacturer's authorized distribution network – and, of course, it bears repeating that AG has been unable to present evidence of the existence of even a single consumer who viewed S&L's website and was confused about any of these issues.

CONCLUSION

For all the reasons set forth above, this Court should deny AG's motion for partial summary judgment.

Respectfully submitted,

By: ____/s/____________________

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[7] Contrary to defendant's claims, it is not the case that "the disclaimer must be accessed through a link to yet another web page." The link takes consumers to what S&L calls "the full Disclaimer" (AG Rule 56.1 Statement, Exhibit L), but the basic disclaimer is on every web page where AG products are sold. (AG Rule 56.1 Statement, Exhibits I-J) AG's claim that "S&L' full size images… do not contain a disclaimer" is true but misleading. These "images" are just enlargements of the product photographs, not separate web pages, and a consumer must return to the product web page in order to purchase the product in question. (AG Rule 56.1 Statement, Exhibit K.)

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